

CODE COMPLIANCE AT adidas—THE HUMAN FACTOR

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The athletic footwear sector's position at the cutting edge of globalization also places it in the vortex of debate over how to set and maintain labor standards for contractors' employees in countries where workers have little or no legal protection against exploitation. Stephen Frenkel and Duncan Scott examine the factors that affect the extent to which *adidas*-Salomon has been able to use its code of labor practice to regulate the labor standards of its main manufacturing suppliers in China.¹

Introduction

Network organization and globalization go hand in hand as multinational companies coordinate the worldwide distribution of high quality products manufactured by internationally dispersed suppliers. Big brand athletic footwear companies such as Nike, *adidas* and Reebok are not only at the forefront of this process, they are cast in the role of socially responsible corporate pioneers, ensuring that their products remain unsoiled by sweatshop labor.

Three moral concerns drive the theme of international labor standards:

First, consumer surveys and rapid growth of ethical investment portfolios highlight a demand for "clean" products – goods and services untainted by exploitative labor or environmental practices.² Second, producers are anxious to avoid unfair international competition that might force "a race to the bottom" in wages and conditions. Third, policy-makers wish to avoid any further decline in popular support for the global trading system.

Apart from national legislation, which is often weakly enforced, workers in most developing countries remain outside the International Labour Organization's (ILO) core labor standards. This means, in effect, that multinationals are able to source products from sweatshops. However, motivated

by one or more concerns – reliable, high-quality product sourcing, brand image, and social responsibility – some firms attempt to uphold core labor standards among their main contractors through third party quality assurance or by implementing a code of labor practice.³ Corporate codes are filling a regulatory vacuum and are becoming an important means of upholding labor standards in third world countries. But aside from NGO and media reports of occasional violations of codes and ensuing problems, there is little detailed information and dispassionate analysis of code implementation in contractor factories. This article seeks to make a modest contribution to filling this gap.

Global and Local:

Compliance and Collaborative Type Relationships

Research shows that differences in global firm practices, and differences in the way contractor management incorporate the code into their employment relations strategy and practice, lead to variations in the way contractors implement the codes.⁴ This present study demonstrates that the same global firm may develop very different types of relationships with similar contractor factories and that this will have a significant effect on performance and worker well-being.

Two basic types of relationships can be distinguished. The compliance pattern is characterized by global firm domination: the global firm develops and introduces the code, communicates its importance to the contractors and is responsible for its enforcement. The contractor seeks to abide by the code provisions, seeing it as a necessary condition, together with price, quality and delivery targets, for continuing as a major supplier. By contrast, the collaboration pattern implies partnership (though not power equality): the code constitutes a basis for continual improvement of workplace performance and worker well-being. Its importance comes to be taken for granted and is jointly monitored and changed by the global firm and the contractor.

We will show that despite *adidas*' common labor practice requirements, conveyed through the code, two very similar contract manufacturers – hereafter referred to as Alpha and Beta for confidentiality reasons – implement the code differently. And they do so with substantially different results. We suggest that Alpha's superior performance arises from

collaboration. Nevertheless, Beta's basically compliance-type relationship with *adidas* also yields distinct benefits that are unlikely to have occurred in the absence of the code. This confirms that codes of labor practice can be a valuable tool for implementing core labor standards among multinationals' contractors in developing countries.

The Companies and the Research Design

The two contractors discussed in this article are private companies controlled by Taiwanese managers. Beta is part of a Taiwanese firm that owns four additional similar-sized footwear factories in China. Alpha, also located in China, is a single-plant company jointly owned by the Taiwanese owner (mainly the managing director), a community-owned enterprise and a state-owned leather company. However, the Taiwanese owners manage the company.

Both workplaces are situated in Guangdong province within 100 kilometers of one another. The plants produce sports shoes that are similar in terms of product complexity, although Beta enjoys a longer average production run per item – 1285 pairs of shoes compared to 832 at Alpha in 2000. Alpha has manufactured exclusively for *adidas* over the past several years. The Beta plant has been an exclusive supplier for a similar period, but its sister plants produce for other global firms. Starting in 1998 both contractors were required to introduce the *adidas* code of labor and environmental practice. Prior to this contractors were only required to abide by existing labor legislation.

Both workplaces are large in terms of production capacity and workforce size, Alpha being slightly larger than Beta. The technology used is about the same age, and predominantly manually operated with some assembly line work. Workers are mainly employed on repetitive work using stand-alone stitching machines. Quantity and quality norms are set by contractor operations personnel in consultation with their *adidas* counterparts. There are approximately 20 *adidas* employees in each workplace.

Section performance is shown on boards in workshops and is reported in the monthly magazines that are distributed to all employees. Supervisors are expected to train, care for and motivate workers in their section, including recommending workers for merit awards to their superiors. Supervisors at both workplaces are formally appraised annually. Criteria for performance bonuses and promotions include productivity, quality and human resource indicators such as labor turnover, and the number of complaints lodged by workers. In line with government policy, there are no independent unions at either workplace.⁵ However, suggestion box arrangements are designed to ensure that workers can submit grievances in confidence and workers are encouraged to discuss their problems with labor practices staff.⁶ Bonuses or piece rates are paid for productivity and quality above the norm. These performance-related elements account for approximately 16 percent of total average pay at both plants.

Most workers are young, unmarried, migrant women from the poorest parts of Guangdong province and the inland



Most workers at foreign contractor factories are young, unmarried migrant women. Photo: Reuters.

provinces of Hunan, Sichuan, Henan and Hubei. They either live in dormitories alongside the factory, or share rooms in a nearby city. These workers visit home once or twice every two years. The traditional pattern is to work for three or four years in the south before returning home to marry. This is changing as work permits become easier to extend and accommodation becomes more available.

The above-mentioned similarities in workplace characteristics are integral to our research design. The two workplaces have been matched in regard to variables that might otherwise account for performance differences referred to in more detail later. On the basis of periodic performance reviews (productivity, quality, delivery time and code adherence), *adidas* managers regard Alpha as a better performer than Beta. Alpha is not, however, at the top of the company's league table of Asian contractors, nor is Beta at the bottom.

Regarding the research process, documentary data on the characteristics and performance of the two workplaces was gathered ahead of visits to *adidas* offices and the two workplaces in April 2001. Semi-structured interviews were conducted with a range of managers, supervisors and production workers. Where it was not possible to interview in English, translation was provided either by a workplace manager (when interviewing managers) or a labor practices staff member (when interviewing supervisors and workers). Workers were interviewed in groups of three in a meeting room away from the shop floor. Additional documentary and statistical data were collected, analyzed, and where necessary, clarified by workplace managers or labor practices staff subsequently by E-mail.

Two caveats regarding the data: first, comparable information was sometimes unavailable or difficult to interpret. Alpha provided more data than Beta, and absent a common data format in the two workplaces, the degree of confidence in comparing data varied. Some data were therefore omitted from the analysis. The second issue concerns the question of bias. The visits were pre-arranged through *adidas* management, interviewees were selected by a manager in each factory, and time constraints limited the number of employees that were interviewed. Steps were, however, taken to mitigate bias. We sought facts rather than opinions, and in order to ensure a broadly representative sample, criteria for selecting employees for interview were stipulated in advance. In addition, by using a variety of sources – *adidas* engineers working in the factories and documentary data – it was possible to check the veracity of information. If bias exists, it is unlikely to vary greatly between the two factories. Consequently we do not anticipate major differences in the factories, or explanations for these, to arise from bias in our data.

adidas, the Code of Practice and Labor Standards

The code of labor practice (posted on the *adidas*-Salomon Web site at <http://www.adidas-salomon.com/en/sustainability/coc/default.asp>) is the centerpiece of *adidas*' strategy for regulating contractor-employee relationships. This document formalizes employee rights and defines acceptable management behavior. Prime contractors sign a term of

engagement agreement that requires them, in addition to meeting output, price, quality and delivery standards, to uphold the labor standards stated in the code. *adidas* encourages contractors to circulate the code by issuing company handbooks to all employees and affixing posters to factory walls, as practiced at Alpha and Beta. In the interests of business ethics, brand reputation and productivity, *adidas* also encourages contractors to embrace the code.

Around 25 *adidas* personnel, employed on a regional basis, provide labor and environmental practice monitoring and training. *adidas* has an eight-person team in Asia with five members dedicated to footwear and three focusing on apparel manufacturing. Members of the labor practices and environmental teams are responsible for undertaking regular (typically monthly) visits to contractor sites to check code adherence and to assist in solving labor or environmental problems. Few labor practices staff members have relevant degrees or long-term experience, but regular contact with *adidas* factory personnel provides them with much useful independent information on factory conditions and labor practices. They also enjoy strong support from *adidas* senior management. This contributes to high work commitment and is underscored by firmly held beliefs in the moral value of fair labor practices, including the contribution such standards make to workforce satisfaction and workplace performance. These factors, together with their supportive style, give members of the *adidas* labor practices team credibility in the eyes of their labor practices staff counterparts (who are usually employed in the human resource (HR) departments of the contractor companies) and senior contractor management.

In essence, by reinforcing the code of practice rules, the *adidas* labor practices staff provide a bulwark against labor abuse, reinforce standards for line manager-employee relations, and help to resolve major labor problems. Because of resource constraints and limited professional expertise, they less frequently "encourage proactive systems that anticipate and prevent problems" (*adidas* code) and are only rarely involved in "implement[ing] projects to research and propose solutions for complex problems that may require long term, multi-step solutions" (*adidas* code).

Once a year, contractors are formally evaluated against a detailed checklist of labor practice and environmental items. The score forms part of a broader evaluation (that includes output, price, quality and delivery times) about the future status of the contractor as a supplier. Contractors are not informed about the specific weighting given to labor practices in this exercise. Where standards are found to be below code requirements, an *adidas* labor practices manager will work with the factory managers to draw up action plans for subsequent implementation by the contractor.

In effect, *adidas* transmits two messages regarding labor practices: the dominant one is conveyed in the language of compliance, while the subsidiary one stresses collaboration. The formal organization of labor practices and the preoccupation of its staff encourage contractor compliance with rules set by the global company. Thus, the code was devised by *adidas* in the light of norms set by its competitors rather than

in consultation with its contractors. The company communicates the code through documentation and by monitoring, training (typically on-the-job) and support provided by its labor practices team. *adidas* is formally responsible for monitoring, sanctioning and changing labor standards. The code's general guidelines state that *adidas* "has the right to investigate any allegations relating to [the code], including holding interviews with workers and having access to facilities and records relating to such allegations" (*adidas* code). And contractors must submit to auditing of labor practices by external organizations (e.g., NGOs) as required by *adidas*.⁷

The subsidiary message of collaboration encourages contractors to work with *adidas* to upgrade labor practices and thereby contribute to higher productivity and quality. In contrast to the compliance message, collaboration emphasizes different goals (continually upgrading labor practices for employee satisfaction and higher performance), different means (dialogue between contractors and the global firm), and different responsibilities (a division of labor, with the global firm assuming a more strategic and provisioning role, and contractors taking responsibility for implementation, monitoring, and proposals for change).

Since *adidas*' approach encourages collaboration within what we refer to as a "compliance +" framework, contractors may interpret the code differently. There are three likely possibilities: (1) the code is interpreted in the light of its main message – compliance – and the contractor behaves accordingly; (2) the code is interpreted in two ways, primarily in terms of compliance, and secondarily as an invitation to collaborate; or (3) the contractor emphasizes collaboration, with the code seen as a means of attaining a distinct competitive advantage. In the next section we show that Beta follows the "compliance +" interpretation (option 2), while Alpha prefers collaboration (option 3).

The Labor Code in Practice: Compliance and Collaboration

Interviews with *adidas* code team members indicated little difference in the frequency of contact with each workplace (visits approximately once a month and weekly contact by phone, E-mail or fax). However, the content of these contacts differed. *adidas* staff reported more effective communication and understanding and a more equal and harmonious relationship with their counterparts at Alpha, compared to Beta. For example:

"We find it more difficult to communicate with Beta. They saw us as interfering and could not understand why we wanted to improve labor practices. Now they respect us and are beginning to believe us, but they still don't really understand. Their English isn't as good as at Alpha, but even when we try to explain in Mandarin they don't seem to understand. They seem to follow, whereas at Alpha they will make improvements without us asking them to." (*adidas* regional labor practices staff member)

"Alpha's attitude to improvement is different: when we visit, the code of practice team which coordinates the action plan gets us to check that what they have done is correct. At Beta, with the

high turnover rate of people in the team, there is little continuity, so there is a lack of continuous commitment." (*adidas* regional health, safety and environment manager)

This last comment hints at structural differences in the two contractor organizations, which contribute to the variation in relationships referred to above.

Both contractors were trying to improve manufacturing productivity, quality and throughput times. Senior management was aware of *adidas*' intention to further reduce the number of contractors, so "customer responsiveness" and profitability were also mentioned in interviews. Senior management at Alpha supported the code more keenly than at Beta, in part because of their commitment to retaining their status as a sole supplier to *adidas*.

Beta's strategic focus was relatively narrow, with no reference to stakeholders other than the shareholders. Their strategy emphasized Total Quality Management (TQM), supported by integrated software systems and code-related labor practices as devices used to reduce unit costs. Monthly monitoring of machine usage and waste reduction, machine leasing and sharing across the five plants that comprise the group, and a more transparent purchasing system also helped to increase recent performance. In contrast, Alpha stakeholders included employees and the notion of "repaying society." This took the form of financial support for a nearby university student intern scheme and provision of recreational facilities to elderly local residents, at the same time as Alpha's successful efforts to restructure production lines and reduce unit costs while maintaining quality. Whereas developing new systems was a priority at Beta, at Alpha these were already in place. According to *adidas*' regional labor practices manager:

"Management systems are better at Alpha – everything from payroll, manufacturing quality – they have documented all these processes; they track things like performance against incentive targets and they know the relationships between different processes. . . . Beta has very few systems. It's sort of ad hoc management. They don't have a sophisticated systems approach to management, although they are now trying."

Alpha's strategy emphasized rules, trusting workers to obey on the basis of rigorously enforced standards. This meant that Alpha could work with a lower ratio of production workers to supervisors – 17 to 1 – compared with Beta's 11 to 1. An indicator of Beta's less stringent approach to work rules was the absence of any systematic records of awards and infringements. Details at Alpha indicated a high ratio of penalties to awards. Senior managers stressed the importance of discipline, arguing that the rules embody principles:

"We keep to the rules. Rules are a strong focus for us. These are clear. Workers and managers who obey the rules should be rewarded and those who don't should be punished. Everyone should be disciplined and follow principles. For example, we have a rule about identity badges. [Pointing to his identity badge] Everyone, including myself, has to wear one of these.



Workers in the coastal city Wenzhou make 70 percent of all reusable lighters in the world. Photo: Reuters.

So, that illustrates the principle that we treat everyone the same. Another example of a principle is how supervisors are supposed to treat workers. They must follow the principle of 'teach rather than blame.' Alpha supervisor must ask himself: 'Did I do enough to prevent this problem from happening?' This is self-discipline." (senior manager, Alpha).

The emphasis on discipline at Alpha was balanced by a greater commitment to employee welfare and well being compared with Beta. For example, although both workplaces provided various amenities (a company shop, TV in the dining hall, a library, dance evenings, sports competitions, etc.), Alpha's range was more extensive. It included special banking facilities, access to regional newspapers, a room for mothers to nurse their babies, and the construction of a large food court what will include several restaurants catering to the various tastes of the migrant workforce. Alpha was also more innovative. For example, Alpha's labor practices team introduced an employee information help-desk in the canteen. The success of this venture led Beta to introduce a similar scheme some months later.

In sum, the paradoxically stricter and more benign management at Alpha reflected senior management's aim to develop a community of diligent and dedicated employees, an approach that might be linked to the managing director's strong Christian convictions.

Organizational structures at the two workplaces differed: reporting relations at Beta were less conducive to high performance than at Alpha. Beta was part of a multi-plant complex whose two most senior managers – the chairman and a general manager – were rarely seen. The former visited the workplace on average once every two months and the latter once a month. Except for major investment decisions,

authority was vested in an executive manager who was based at the workplace and supported by a team of six relatively new senior managers. One of these managers held the dual role of auditing at Beta and at the other four plants owned by the firm, and implementing *adidas'* code of labor practice at Beta and a sister plant nearby. At Alpha, which as noted earlier comprised a single workplace, the managing director (and major shareholder) was supported by four long-standing colleagues titled general managers, or in some cases, vice-general managers, one of whom was responsible for HR. Decisions tended to be centralized in this cohesive team.

adidas' personnel visiting the workplaces claimed that their counterparts were more accessible at Alpha compared with Beta. For example, the regional health and safety manager commented:

"At Alpha, management are more open and willing to accept our ideas, and they invest a lot of resources in health and safety. They have a good labor practices team and their senior managers communicate with the workers. At Beta the general manager isn't there much of the time. I've been there four times and on each occasion I didn't see him. They seem to be out of touch . . . And they don't speak English too well, so maybe they don't understand us at *adidas*. And they are not so willing to put resources into aspects relating to the code."

Interviews confirmed that senior managers at Alpha communicated more comprehensively with middle managers and workers than was the case at Beta. Meetings between senior and middle managers were held weekly at both workplaces, but only at Alpha did the most senior manager address all employees on a regular basis. This occurred each month on the firm's sports field. At both workplaces the meetings focused on current and anticipated problems and plans, but at Alpha

there was more emphasis on reinforcing corporate values. This was explained by Alpha's managing director as follows:

"Every week [the general manager] and I meet with all the middle managers and supervisors. We give out a lot of economic information about the market, what our orders are like, profitability, etc. We give them concepts and principles and try and open their minds to the need for change."

Offering a vision of the company's future is also a stronger feature of Alpha's monthly magazine, which highlights the four corporate values – loyalty, practicality, quality and diligence – on the cover.

The stronger emphasis on managing human resources at Alpha compared to Beta – evident in the objectives, strategy, organizational structure and communications – was more aligned with *adidas'* approach, but had evolved over time. At the inception of the relationship with *adidas*, Alpha shared Beta's sub-standard labor practices, such as long hours of work and unsafe working conditions. Code compliance encouraged higher standards, but this evolved more rapidly into collaboration at Alpha. Collaboration then led to further gains in workplace performance and labor practices at Alpha compared to Beta, a point that needs a brief explanation. At both workplaces the labor practices team was comprised mainly of female employees below 25 years of age, the most senior of whom reported to the HR manager. The teams differed in four ways.

First, the team at Alpha was smaller. Excluding secretarial staff, it had three members compared with four members at Beta. Second, these employees were relatively experienced – they had all been in their present position for at least two years, nearly twice the average tenure of their counterparts at Beta. Third, and related to this, they were perceived as being more competent. In the words of one regional labor practices manager:

"Alpha was one of the first factories to employ a person and staff responsible for implementing the code. [The labor practices team leader] knows a lot about what is happening in the factory and so does [the managing director] who supports the code. They link their efforts at improving labor practices with processes and issues relating to productivity and quality. At Beta, they established a code of practice section later, and the quality of the staff has not been as good. They have had higher staff turnover in that section."

A fourth difference is senior management's attitude, and related to this, the resourcing of code-related activity. At Alpha, strong senior management support is illustrated in the following comments by a senior manager:

"Workers and supervisors should be happy to work here, and they should be given an opportunity to contribute. So we are transparent – we [senior management] communicate with workers and supervisors. . . We reinforce our principles and



Without proper monitoring, chemical plants such as this joint venture between BP AMOCO and a Chinese partner can be the scenes of horrific industrial accidents. Photo: Reuters.

the code and encourage supervisors to speak up, not to hide facts as they do at other factories, so creating misunderstanding. Two-way communication, that's what we believe in." (senior manager, Alpha)

A similar view is voiced by an *adidas* quality engineer based at Alpha:

"At Alpha there is a strong effort to get support from everyone. There is good information exchange, feedback . . . Management get things done; they are open-minded, accept new ideas from anyone who cares to offer them."

"At Alpha, they [senior management] automatically think about the workers' well-being – they are motivated to look after their workers." (member of *adidas*' regional labor practices staff)

The more cautious, ambivalent and reactive attitude of Beta's senior management stems from a less people-centered approach that views the code as an externally-imposed standard with major cost implications.⁸ According to Beta's HR manager,

"We develop these practices because this is the *adidas* way. The workers get educated in what their rights are, which is a positive thing. On the other hand, it's Western companies determining what their rights are, which I don't feel is right – they are imposing certain standards in a different environment. But over the long term the code of practice is good for the company. It encourages us to improve our productivity and quality by having to work within certain limits [shorter hours and improved health and safety practices]. Also it improves the company's reputation. We are producing for a famous brand, and workers in the area want to work for us because they know that we follow the labor law. But this is a big cost for us – improving the dormitories, the canteen, and facilities more generally – even though we are compensated for some of the cost by *adidas*."

In contrast to their counterparts at Alpha, labor practices staff at Beta complained:

"We don't have a single computer of our own. So if we are doing a project, we have to walk around and find one and then get permission to use it if no one else in that department is using it. It is inconvenient for us." (first staff member)

"We don't have a telephone in our office, which is in the dormitory area. We need one so that workers can contact us and talk to us privately." (second staff member)

Limited resources probably contributed to the relatively high staff turnover in this section and restricted code-related activity in contrast with Alpha, where a combination of senior management support and adequate resources heightened staff morale. This in turn contributed to employee welfare and to satisfaction more generally. Furthermore, *adidas* labor practices staff enjoyed working with their counterparts at Alpha, and were more inclined to exchange information and include Alpha

in new projects. This provided a virtuous circle of mutual support in contrast to the more formal monitoring approach that *adidas* staff adopted in relation to Beta. An *adidas* staff member explains, "The team at Alpha is forward-thinking. They do things well, so it's only natural that when we are thinking about something new we will talk to them about it, get their opinion."

In sum, differences in management and organization at the two workplaces contributed to the more rapid development of collaborative relations between *adidas* and Alpha compared to the "compliance +" relations that exist between *adidas* and Beta. Three main differences are as follows:

1. Beta's approach is more pragmatic, not resisting the code but not endorsing it fully, either. Alpha's management view the code as integral to their vision and values and hence as an important factor in helping to enhance employee commitment. Alpha management have therefore enforced the code more strictly than at Beta, and have been more effective in building a stable labor practices team.

2. Beta's management tend to see the code as a narrow set of responsibilities, while Alpha's management show more awareness of interdependencies with other functions and goals.

3. Beta's managers regard the code as a set of targets, whereas Alpha management view these as a platform on which to build further improvements. Accordingly, they have been prepared to invest more resources in new code-related initiatives and have been eager to work closely with their *adidas* counterparts to ensure success.

Comparative Workplace Performance and Other Outcomes

We now examine the consequences of these different types of relationship between *adidas* and its contractors for workplace performance and worker well-being. The table below shows different factory outcomes. Similarities in the two workplaces such as age, scale and technology, noted earlier, suggest other explanations for these differences.

Comparative performance, Beta and Alpha, 2001⁹

	Beta	Alpha
Productivity (average no. of pairs of shoes per 8 hours per employee)	1.68	2.48
Quality: a) Factory reject rate %	0.75	0.25
b) Customer reject rate %	0.24	0.46
Average earnings: a) RMB per month as at January 2000	884	983
b) average annual % increase 1998-2000	4	7
Health and safety: a) Total recordable incident rate	250	170
b) Lost time injury rate	157	2
Labor turnover (annual %): 1999	75.0	36.5
2000	43.6	23.8

According to the data summarized in the table, Alpha performs better than Beta and has had a superior pay, health, safety and turnover record in recent years. Regarding productivity, despite reduced working hours from an average of around 75 hours per week in 1999 to 55 hours in 2001, both workplaces have been able to maintain output at levels similar to those prevailing in the third quarter of 1999. According to *adidas* engineers at the two workplaces, quality has improved at both plants. Pay was 11 percent higher at Alpha than at Beta at the start of 2000 and has increased more rapidly (7 compared to 4 percent annually) over the recent period. All interviewed

Collaboration encourages contractors to work with *adidas* to upgrade labor practices and thereby contribute to higher productivity and quality.

workers claimed that total annual average pay was slightly more favorable than comparable workplaces in the area, and much superior if the shorter hours worked at the two factories are taken into account. Most health and safety issues are minor. Stress and other physical symptoms from repetitive work have not been noticeable problems at either factory. Regarding labor turn-over – a rough indicator of organizational commitment – the rate at Alpha has been around a half that at Beta, although both workplaces have experienced substantial declines in this indicator. This is in the context of a relatively mobile migrant workforce.

How can these differences in workplace outcomes be explained? We contend that Alpha management has successfully interpreted and implemented the *adidas* code of labor practice as a collaborative relationship. This has been reciprocated by *adidas* labor practices staff and has contributed to a more dedicated and stable contractor management, a more effective labor practices team and a more committed workforce, resulting in the performance outcomes noted above. By contrast, Beta's management has progressed from skepticism toward the code to a position of ambivalent acceptance. This change in attitude has resulted from the code's contribution to improved performance, as illustrated by the working hours limitation and subsequent productivity gains. According to one of Beta's middle managers,

"The code of practice has had a big impact on production-related issues. We need to have high productivity to work within the code's limit of 60 hours [average per person per week]. Fewer hours also mean less fatigue, and so there is less chance of accidents. Relationships between supervisors and workers have improved. Now if a worker has a suggestion she can talk to the supervisor or assistant manager, and they will respond positively so both can achieve their production and quality goals within the 60 hours. The code has encouraged change in the factory, which is a good thing."

A colleague referred to the code's positive effects on workers:

"The code has led to improvements in productivity because

workers wanted to finish on time and spend leisure time with friends and family. Workers have learnt to be more expressive about problems preventing better productivity and quality. In the past they were just scolded by the supervisors and so they had a negative attitude, which resulted in few suggestions [for improvements]. Now workers have a feeling of greater confidence."

In sum, implementing the code benefited management and employees at both contractors' workplaces. However, the benefits have been greater at Alpha, where a collaborative relationship prevailed. Other advantages of collaboration include lower cost of labor practices monitoring because of fewer code-related problems, and more innovation resulting from the richer interchanges between *adidas* labor practices staff and their counterparts at Alpha.

Conclusion

This study of *adidas* and two of its contractors shows that where workers have little or no protection, the application of codes of labor practice by global firms can uphold core labor standards, improve workers' well-being and enhance workplace performance. We also showed that when the code is interpreted as a collaborative partnership between a global firm and a contractor, there is the possibility of generating superior outcomes for both parties and for workers.

Our study suggests that it is not enough to have global firm commitment and resourcing in the form of labor practice monitoring specialists. These teams need to be more proactive and more skilled in fostering organizational change and building collaborative-type relationships in workplaces like Beta. However, the characteristics of the contractor need to be acknowledged as an initially constraining or enabling factor. Paradoxically, where contractors emphasize compliance (as at Beta), the outcomes are likely to be less satisfactory than where collaboration prevails (as at Alpha), even when the global firm adopts a common "compliance +" approach to both contractors. The contractor must bring complementary assets to the relationship: senior management commitment to high labor standards as a means of improving workplace performance; frequent, open communication between managers and workers to promote mutual understanding and respect; and a competent labor practices team to ensure that there is no gap between practice and policy, and that workers' interests are taken into account.

This suggests a stronger role for *adidas* in persuading Beta's senior management to lead the transformation from compliance to simple collaboration as characterized by the Alpha-*adidas* relationship. A joint leadership approach that developed the features mentioned above would probably succeed.

But what lies beyond the simple collaboration model? Senior managers of global and contractor firms need to think strategically about forms of relationships and structures that would best facilitate their medium-term goals. The envisioned business ties need to be supported by people-management strategies that acknowledge or even embrace emerging trends – for example, the development of



The application of codes of labor practiced by global firms can improve workers well-being and enhance workplace performance. Photo: Sinopix.

independent unions or at least structures that enable bargaining with management despite bans on independent unions in countries such as China.

Coherent business and people-management strategies then need to be tested by applying action research in a select sample of workplaces, bearing in mind requirements to overcome the many possible barriers to sustainable complex collaboration.¹⁰ This type of experimentation would facilitate learning and establish benchmarks for other contractors to emulate. Such a program would need to be ongoing and be supported by incentives. These need not be monetary; they could be awards and prizes to be shared with the workforce. Moreover, there is no reason why best practice factory award programs of this kind should not be championed and administered by government, as leading labor specialist Guy Standing has advocated.¹¹ Indeed, corporate codes of labor practice should be regarded as one of several policy instruments for establishing and improving labor standards. It is only through more complex collaboration between various political, economic and social organizations that we can achieve a fairer and more

productive global society.

1. A longer version of this article was published in the Autumn 2002 issue of *California Management Review*.
2. Cottrill, K., 1996, "Global Codes of Conduct," *Journal of Business Strategy*, May/June, pp. 55-59; Fung, A., O'Rourke, D. and Sabel, C., 2001, "Realizing Labor Standards," *Boston Review*, Feb/March.
3. Some firms with offices near or in developing countries specialize in quality and labor standards' assurance. They earn a commission for ensuring that labor standards meet the requirements of overseas buyers. See Tanzer, A., 2001, "The Global Factory Cop," *Forbes*, March 19, pp. 92-94.
4. Frenkel, S.J., 2001, "Globalization, Athletic Footwear Commodity Chains and Employment Relations in China," *Organization Studies*, Vol. 22 (4), pp. 531-562.
5. An official union existed at Alpha but not at Beta. Even so, its chairperson was a senior labor practices staff member and it did not process workers' grievances, which was the role of the labor practices department. It did have a liaison function, meeting occasionally with union representatives from similar factories in the district and local government officials to discuss emerging issues and new labor legislation.
6. According to labor practices staff at the workplaces, the most common problems include: personal adjustment issues, e.g. homesickness and self-discipline, and administrative issues such as how to buy a long-distance bus ticket or completing government forms. A third set of issues relate to interpersonal relationships. Note that workers from different villages and provinces work and live together so that ethnic or language-based group tensions are rare.
7. Sporadic independent monitoring has been conducted by Verite, an NGO accredited by the Fair Labor Association.
8. This may be related to the more complex relations that Beta's corporate managers have with various global companies. Recall that Beta is a multi-plant company whose factories supply several global companies. Management must therefore meet the requirements of different codes at different factories.
9. Note: Productivity and quality data are for 12 months, 2000. The factory reject rate is the proportion of shoes rejected by factory inspection as a proportion of total production. The customer reject rate is the percentage of shoes returned by customers that have been sold. Earnings calculated by an exchange rate of RMB 8.2794=US\$1.00. Health and safety figures are for 6 months, June-December, 2000. The total recordable incident rate is the number of working hours lost due to employees suffering from fatalities, injuries, occupational illness and doing restricted work time, divided by the total number of hours worked in the same period, multiplied by 1,000,000. The lost time injury rate is the number of hours lost arising from fatalities and "lost workday cases," divided by the number of hours worked over the same period, multiplied by 1,000,000. Labor turnover is calculated as the sum of the number of voluntary and involuntary departures from the workplace in that year as a proportion of the average total employment in the same period.
10. Witford, J. and Zeitlin, J., 2002, "Governing Decentralized Production: Institutions, Public Policy, and the Prospects for Inter-Firm Collaboration in U.S. Manufacturing," *Industry & Innovation*.
11. Standing, G., 1999, *Global Labour Flexibility: Seeking Distributive Justice*, London: Macmillan.